

# **Impact of Compensation Practices on Employee Retention in English Medium Private Schools of Karachi**

**By**

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## MBA Thesis

### 2<sup>nd</sup> Half-semester Progress Report & Thesis Approval Statement

#### Supervisor-Student Meeting Record

.	Date	Place of Meeting	Topic Discussed	Signature of Student
5	16/02/2016	Supervisor Office	Finding/results & critical debate discussed.	
6	16/02/2016	Supervisor Office	Conclusion and recommendation.	
7	16/02/2016	Supervisor Office	Completed thesis reviewed and approved for presentation.	

#### APPROVAL FOR EXAMINATION

Candidate's Name: Umair----- Registration No. 26833-----

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Supervisor's Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Name: Dr. Rafiq Ahmed Khan \_\_\_\_\_

Head of Department Signature

Date:

### **Declaration of Authentication**

I, hereby, declare that no portion of the work referred to in this thesis has been submitted in support of any application for another degree or qualification of this university or any other institution of learning.

**Signatures:** \_\_\_\_\_

**Name:** \_Umair\_\_\_\_\_ **Date:** 36833\_\_\_\_\_

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## **Dedication**

The achievement of this paper is the result of uncountable help from Almighty ALLAH, all praise goes to HIM. Then all the efforts and care made by my beloved parents for providing me all the necessities to complete this project. Then thanks to my thesis supervisor Dr. Rafiq Ahmed Khan, under his guidance and supervision the project has comes towards a successful end.

And last but not the least I would also like to thank my friends for helping me out in every stage of this project.

## **Abstract**

### **Purpose:**

The purpose of the research was to find out the impact of compensation practices on employee retention in English medium private schools of Karachi. Employee retention is one of the major issue faced by the organizations especially in private schools of Karachi and one of the major cause is ineffective compensation policies followed by the organization.

### **Methodology/sample:**

The research, being explanatory in nature, involved qualitative data, and sample size was 80 teachers of six English medium private schools of Karachi. The questionnaire instrument was adopted. Regression and correlation test were performed to identify the impact of compensation practices on employee retention.

### **Findings:**

The study and analysis of the results have revealed that the impact of pay and non-financial incentives have positive effect on employee retention which shows the strong relationship between employee pay, non-financial incentives and commitment with the organization. It suggest that organization has to consider market competitive basic pay, allowances, rewards and training. Benefits plan which include vacation, health and/or retirement plan helps employees to focus on their and organizational goals.

### **Practical Implications:**

The findings/results of this research will helps management to successfully plan and implement compensation policy for employee retention by recognizing the gap in their reimbursement structure and employee commitment. It will also help to efficiently alien benefits and nonfinancial incentive according to market situation.

**Keywords:** Compensation, retention, nonfinancial incentives, benefits, pay.

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# **Chapter 1**

## **Introduction**

### **1.1 Purpose and Significance of Study**

Employees are considered to be the most important asset of an organization, but organizations does not consider this fact and still perceive them as an expense in their balance sheet (Ahmed and Kolachi, 2013). A well-defined set of human resource policies and procedures gives employees an ideal environment to improve their performance over time and convert them into human capital. It is clear that high-performing employees can place the organization into revenue stream, as study has enlightened that to retain superior performer, organization has to offer attractive compensation.

Employer needs to comprehend the link between competitive compensation and increased revenue. According to the Adam (1963) equity theory explained that there is a direct relationship between fair or unfair distribution of resources and employee performance. Through the previous studies it has been cleared that compensation have a vital role in job satisfaction which resulted in retention of an employee. Before we proceed we must be understand the compensation's three elements: pay (money or wages, commission, overtime), benefits (healthcare, vacation pay, retirement fund) and non-financial (training & development).

The opposite side of this assumption of value is based on pay which has brought about raises in turnover rate. Turnover cost has been classified into five pre-departure costs (exit paperwork), recruitment, selection, orientation and training. This discussion furthermore draw consideration towards the cost associated with turnover is inefficiency of organization's services during period of vacant position. Chikwe (2009) believes that turnover counter organization's objective which is maximize consumer satisfaction and minimize expense, whereas turnover creates vacuum of untrained workers and resulted in loss of market competitive edge.

William, McDaniel, and Ford (2007) recommended that organization must raise their benefits if they can't increase their pay in order to fulfill job satisfaction. Literature holding a view on

healthy employee turnover is crucial for the company, as it halt to become stagnant if underachieve employees who do not leave the organization. Murphy (2003) argued that companies actually benefits from losing poor performer and inflow of new blood. Keeping in view above discussion, the aim of the research is measure the impact of compensation practice help the employer to retain employee.

This research is likely to help schools' management to effectively plan and implement their compensation strategy for employee retention:

- It will help management to identify the gap in their compensation system and employee retention planning.
- It will help to efficiently alien benefits and nonfinancial incentive according to market situation.
- It will tells the importance of employee retention on the performance of the organization.

## **1.2 Problem Statement**

English medium private schools of Karachi are facing chronic teachers' turnover. The main objective was to understand the effect of compensation practices on teachers' retention. Teachers must get satisfactory salaries as paid in other professions, requiring similar or comparable qualifications. Teaching profession has to reflect the important function of the society with their act and responsibilities, and schools' administration has to acknowledge teachers efforts and compensate them adequately to cater for cost of living and household expense. The unjustified pay scale pushes the professional teachers to better opportunity or they may join various institutes for satisfying their needs and ultimately cause in low retention. Through this study, an effort was made to determine the level of satisfaction of school teachers working in English medium schools of Karachi.

## **1.3 Research Questions**

Following were the research questions:

- Are teachers satisfied with current compensation practice?
- Do schools provide enough benefits to match with employee needs?
- Is the rewarding system effective to accomplish employer objectives?
- Are employees willing to continue their services with current employer?

#### **1.4 Objectives of the Study**

Following were the objectives:

- To find out the impact of pay on employee retention.
- To find out the worth of benefits system in schools.
- To find out the impact of nonfinancial incentives on employee retention.
- To find the satisfaction level with contemporary compensation system.

#### **1.5 Scope of the Research**

The scope of research is teacher of English medium private schools of Karachi. The scope is only limited to impact of compensation practices on teachers' retention and their satisfaction level.

#### **1.6 Time Horizon**

Like a characteristic master's degree thesis work, this research work will be time constrained and chosen to short-term and cross-sectional study instead of adopting a longitudinal approach.

#### **1.7 Time Scale**

Submission of first draft (three chapters) to thesis supervisors is on 30th December 2015. Submission of complete thesis (two spiral bound copies) is on 5<sup>th</sup> March 2016. And Thesis defense on 19th March 2016.

#### **1.8 Limitation of the Study**

The study of employee retention's cover various factors and its prospective in terms of reliability includes social network, family, career stage, financial status, country's economic condition, intrinsic and extrinsic factors. Due to limitation of time and resources, and as this paper is the requirement of MBA, it focuses on compensation's impact on employees retention.

## **1.9 Organization of Thesis**

The thesis comprises of six chapters, a list of references / bibliography and appendices.

Chapter 1 contains the problem background, aim of the research, research hypothesis and purposes and overview to the sector over which the research is being conducted etc.

Chapter 2 includes evaluation of the prevailing literature comprising the theoretical discussion on impact of compensation practices on employee retention in English medium private school of Karachi with the outlooks of the academicians' and experts' on the matter.

Chapter 3 encompasses research methodology – nature of research, target population, sample scope, sampling technique, and data gathering approaches employed throughout the study, type of data collected, and the way the data was assimilated.

Chapter 4 covers analysis of primary data collection and integration and illustrates the findings of data analysis and their interpretation.

Chapter 5 consists of a critical debate on the study drawing on the literature review and contrasting it with the findings of this study.

Chapter 6 includes conclusions and recommendations.

## **Chapter 2**

### **Literature Review**

#### **2.1 Significance of Employee Retention**

Employees are life blood of any organization, they gives competitive edge to the firm in its industry. They become valuable asset for the organization and in order to retain these skilled and competent employees companies adopt various strategies. Retaining is an ability and administrative technique which start from creating, holding and using asset for present and future use (Hausknecht *et al.* 2008). To remain ahead, firms need to identify and fill the gap in employees' growth and development. This learning opportunity enhances workers' capability and provides them the reason to remain committed with the organization. Research demonstrates that to keep workers with the firm, there must be three things that should be fulfill representative's nobility and admiration, paid well and career development.

There are negative aspects for long retaining such as voluntary retirement, which in return cost to the firm in significant loss of an asset. The cost of losing revenue has generated from employee made which is based on three major phases, its loss of current productivity, second is the declining in service quality due to vacant position and third is the wastage of time and resources invested on preparation new resource. Literature argue that there are two different types of turnover exists, first is functional turnover in which good performer stay with the organization and bad performer leave it (Stovel and Bontis 2002). These outcome can be get through implementing effective key performance indicators.

On the other hand, Abassi and Hollman (2000: cited by Samuel *et al.* 2009) counter that good performer leave and bad performer stay is known as dysfunctional turnover which shows the lack of management support for longer period programs. And it is because of effective performance system which makes difference in holding the best talent and leave the lagged. Study also evident that low performer marginalized with the organization for pay and benefits

rather than for opportunity for advancement, fair treatment or positive attitude (Hausknecht *et al.* 2008).

Zin *et al.* (2012) advocate the retaining and attracting employees are more cost effective than recruiting new employees. Hence, the intelligently developing strategy by allying young and old resource in a manner to maintain the right combination will enhance the productivity. Analyst offered strategy for developing the practices of identifying, selecting and retaining promising employees in order to effectively utilize necessary skills required by company to achieve its goals.

The above discussion also supported by SHRM organization (2015) that the firm must select right talent whose personal growth strategy will match with the organization mission and values, as it align organization's internal culture. It guides in finding the leader who can really impact the value in the short term and this may not be the whole class but for individual from critical area which cost the organization. It conclude in this way that identifying the candidate in the early process by defining parameters for a such class which will resulted in long term retention of effective resource.

The challenges from global competition pushes organizations to fierce their efforts for retaining good resource. As best employees are in shortfall and attracted by advance industrial economies. This shows the coming generation become more specialized and career oriented and pursue by greater choices across the companies which cost the employer loss in term of know-how confidentiality and investment made by them. Rodriguez (2008: cited by Kyndt *et al.* 2009) claims:

“If employees feel they aren't learning and growing, they feel they are not remaining competitive with their industry peers for promotion opportunities and career advancement. Once top employees feel they are no longer growing, they begin to look externally for new job opportunities”

Hence, the employer put their special attention on career and succession planning to retain valuable employees. There are distinctive variables which are assumed to be the part of employee retention, for instance, hierarchical responsibility which reflects their feeling of membership and work nature (Curtis and Wright 2001).

## **2.2 Employee Compensation**

Employee compensation plays very important role for job satisfaction, commitment and employee retention. It also influences external competitiveness and internal equity to predict employee's productivity which has measured by their pay fairness structure and it must be both cost efficient and effective. According to Lai (2011) the link between compensation and job satisfaction is quite positive because the monetary strategies are based on compensation methods. For effectively utilization of workforce, compensation system helps to develop workforce with the right skills, knowledge and abilities to achieve organization's goal. It has been used as an internal factor to retain and external tool to attract the best employees. Compensation is used to satisfy, motivate, retain and reward the employee (hr-guide 2011).

On its lowest level compensation in term of pay act as a reward which demonstrates accomplishment for an individual and helps him/her to satisfy their necessities, these acknowledgement might be on performance, full participation, year-end or merit reward. In the subject of human resource rewards are divided into two group according to their nature. First is extrinsic rewards which include all the tangible plunders like pay, fringe benefits, job security, promotion, bonus, certificate of gratitude. The second is intrinsic rewards, it use to encourage sense of achievement, recognition, and praise from supervisor, work identity, and respect (Ozutku 2012). The core of intrinsic compensation is based on skills variety, task identity and significance, autonomy and feedback (Martocchio 2009). All these are uses for change employees' behavior and to motivate employees in order to create healthier work climate and encourage everyone's participation with their best efforts.

Besides, it enhances employee productivity, performance and motivates them to give their best efforts. In earlier era, managers used compensation as a tool for rewards and punishment to treat employees' behavior. Now in today's corporate world, compensation represents employee skills which is knowledge, education, experience and their capability.

For organization, compensation's role is on expense side but it builds positive image of entity in the society by distributing wealth in the community. Huang (1997), explained compensation into two basic functions, first is basic compensation which includes salary and benefits. The second is subsidies which covers house rent, transportation, overtime, food allowance. According to Phonsanam (2010), the compensation is a mixture of three features, including



pay, benefits and non-financial compensation; these factors are further discussed in the ensuing paragraphs.

### **2.2.1 Pay**

Kline and Hsieh (2007) pay refers to salary – a periodic compensation for services that employee has made it is a cost of acquiring, retaining, running the operations) for work. The study discuss that pay has been break down into two important factors, the job description and the significance of the job. In order to attract and retain the best talent through better compensation practices, it will affect benefit employers.

There are various types of employee compensation:

- **Base Pay**

Base Pay is a slab made on job grade, according to work responsibility, capability and skill. It's made on market survey and paid after fix period, on mutually agreed terms and conditions of work. It may be calculate on hourly pay or annual salary. And the adjustment criteria are made upon cost of living, seniority pay, merit pay, and incentive or competence base pay. Wages are paid on hourly, daily or piece rate bases, it's calculated on the material produce by employee.

- **Commission pay**

Commission pays dependent upon the sales of quantity and its calculation is on the percentage bases. Overtime pay is the amount compensated to the employee for their extra work after completing agreed working hours.

- **Disability Compensation**

Disability compensation considered when an employee effected by disease or injury occurred on the course of employment, it may also compensate the loss of working time due to illness (U.S. Dept. of Veterans Affairs).

- **Dependency Compensation**

Dependency compensation is a monetary benefits payable to spouse, parents or children of service member who died during active duty. Stock options is one of the way to giving company's ownership to employees on subsidies rate.

- **Allowances**

Allowances are provided to share the portion of amount individual spent on work, it includes food allowance, travel allowance, communication allowance to support employee for their commute problem and to maintain their concentration on work and reduce their hassle from unnecessary work disturbance.

### **2.2.2 Benefits**

Benefits are indirect compensation for the time which has not performed work such as health care, retirement and life coverage (Heneman and Schwab 1985). Benefits are used by employer to sustain employee from leaving the organization, the cleverly use of pay and benefits help companies to lessen turnover, improve job satisfaction and meet their goals. Organization compensation benefits are;

- **Health Benefits**

Health benefits provide employee life and health insurance, out and in-patient facility to employees, panel assign by organization for hospitalization and other health related matter. Dental, visibility, threat compensation are also vary from nature of work and its impact on human life which is covered by employer.

- **Retirement Benefits**

Retirement account deal with gratuity, pension, provident fund and other service-end benefits to secure employee from unemployment related factors. It's made by mutual contribution by employer and employee from salary they earn during the course of employment.

- **Vacation**

Leaves for sickness, casual, marriage, education, maternity or vocational annual, have given by employer by understanding the workload and period for relaxation for employer to enhance their productivity and encourage them for long term retention.

Guthrie (2004) felt that the employee's skill and job knowledge are the factors considered for setting pay. Guthrie's study suggested that companies should invest in human capital in order to reduce turnover rate. He recommended that increased pay should occur when an employee gained job specific certification.

### **2.2.3 Financial Compensation**

Zingheim and Schuster (2008) define financial incentives covers performance, bonuses and profit sharing, deferred payments (which is paid after retirement in the form of pension or stock option) are arranged in a manner that the employees get rewarded for their contribution. Therefore, it is suggested that employer must offer other incentives to retain employee and creates its competitive edge in the industry.

It covers following heads for employee's remuneration;

- **Pay for Performance**

Pay for performance are based on their set standard by employer and measured on their key performance indicators. There are five different methods or mix of them has used by employer to rate the performance of such as:

- ✓ 360 evaluation is most recommended method to measure employee performance by getting review from peers, supervisor, subordinates, customer and vendors as well.
- ✓ Graphical scale is one of the common method used to judge the employee performance which allows employer to compare the performance of several employees at the same time.

- ✓ Checklist approach is simplest form for this gauging employee by answering “yes or no” which provide information of deficient areas and help in training and development.
- ✓ In critical incident, manager maintain log on every action of subordinate and on the time of appraisal they retrieve all the acts and rate the employee.
- ✓ Self-evaluation methods is performed by employee itself, with the help of multiple choice question and set target they rate themselves. It shows the clear picture and lack of discrepancy in understanding of any part of job. This creates the environment of open discussion between employee and employer for career development.

- **Bonus**

Bonus is the reward paid on exceeding performance and on earning particular profit. These are the multiple of per month salary and it gives many benefits to company such as performance versus expectation to enhance productivity. It can also to cut the pressure to raise salary.

#### **2.2.4 Non-Financial Compensation**

Non-financial incentives contain employee acknowledgement, training, development career planning programs. Study proved that non-financial compensation is more effective the pay-check, it provide quality of life, peace of mind by securing employee from risk by providing health insurance, flexible working hours and other benefits.

It is the acknowledgment of employees’ efforts and work dedication, enhance loyalty, moral and build supportive environment (hrcouncil.ca). These are psychological motivator and they are become important and prevalent in today’s workplace (Ivey Business Journal).

The training and development is also one of the factor which fall into the non-financial compensation factor. It helps in growth of organization and produces reason for employee retention. It is a part of career development which is supported by long term mission of the organization and become the reason of job satisfaction.

In today's era of globalization and fierce market competition, technological innovation make it tough for the organization to survive without strategic competitive advantage. After realizing this situation businesses' has focused on constant learning and development of their employees in order to retain trained workforce, since employees' knowledge and expertise have turn out to be the key for economically competitive firms (Hiltrop 1999).

### **2.2.5 Motivation**

To obtain desire behavior and conduct particular act from one or group of people the tool used is motivation. Organization's uses these kinds of strategies to attain their goal by achieving employee's commitment. It helps to reduce turnover, gives opportunity to fully utilize employees capabilities for long term project and challenging task.

Herzberg's motivation-hygiene theory based on lower-order need which are necessary to remove dissatisfaction such as food, safety security and higher-level satisfying factors are recognition, career advancement and work identification. He also describe the connection between job satisfaction and motivation. Researchers claim that people will be motivated by challenging and pleasant task by performing on their higher capability. The aspects involves in motivations are organization and employee goals and workers participation in decision making.

Porter *et al.* (2003) identified the factors which can de-motivate employees include work environment, supervisor behavior, salary and policy as well. The combination of extrinsic and intrinsic factors can produce effective strategy for employee retention. Samuel and Chipunza (2009) had studied the relationship of intrinsic and extrinsic variables which effect on employee's motivation such as training, challenging job, innovation and job security. Through influence of these variables, managers become able to reduce turnover and/or retain of finest employees.

There is a significance influence can be found in employees retention by goal setting techniques which asses in showing their contribution in the attainment of organization objective. Reward and recognition has also shows effectiveness in acknowledging employees efforts, especially for those who are looking for self-esteem and actualization. As employees mentoring helps worker to develop and growth in career, Das and Baruah (2013) recognizes

these efforts in their study that salary and work setting play an effective role for retaining employee, as internally enthusiastic worker feel valued in the company. They perform better when they are motivated, the theory of expectancy supports to develop efforts-performance-output relationship.

### **2.2.6 Performance**

Performance comes from knowledge and Lee and Strong (2004: cited by Nelson and McCann nd) described that knowing what, how, why and who can make competitive performance. The providing the right work amount of work with correct knowledge will create tactical advantage. Organization's implement various strategies to retain helpful resources in order to avoid financial loss of the firm (Allen 2008). And it will be the result of loss of performance which happen due to loss of knowledge and loss of customer.

In earlier discussion, the dysfunction turnover is good for the organization where best performer remain with the organization. The research suggests that there are three ways to retain finest talent by providing;

- Performance-based reward increase the retention among revenue generating employees
- Pay-for-performance can reduce harmful turnover
- Top performers in job with extensive visibility can easily documented

The cycle of performance appraisal begin from setting standard of expected work from employees and communicating to both supervisor and subordinate then measuring the gap between expectation and set standard and at the last stage rewarding on actual output. These performance management practices act as tool for motivation and to sustain the organization productivity competitive. It helps to identify barrier in effective performance and remove them.

The effectiveness of the performance management system shown at the end of the period, which describes the right people must be selected to perform the job, motivated to work and sound people would be promoted (Ying 2004). It will create the long term sustainability of employee.

### **2.2.7 Job Satisfaction**

Job satisfaction is positive impact of various factors affecting the individual expectation from the employer. A job attached with different elements such as work-life balance, fringe and benefits, work environment, supervisor, co-worker cooperation, work autonomy and identification, self-esteem and actualization, learning and career growth. Locke (1976: cited Wikipedia nd) defined it as pleasurable emotional state consequential as of the assessment of one's job, it describes the work affiliated expectation of an employee.

This topic has been widely discussed and many theories has given on it to study the impact on employee motivation and retention for better productivity. Locke (1976) also presented the affect theory which says that satisfaction can be determine by the gap among the member needs in their job and what they has in job, and it will gauge the level of satisfaction from it. This concept was carried forward in many forms by measuring the gain and given term in equity theory.

The failure to address job satisfaction issue, employer may face problems in through poor performance, raising absenteeism, ill-health worker, high turnover and other negative effects on firm. Satisfied employees are turned in committed member of the organization. A very comprehensive theory presented by Lee and Mitchell (1994: cited by Holtom *et al.* 2008) based on five stages of turnover. The first is shaking event gives thought of quitting job. Second is script of action plan for leaving job. Third is on the organization and individual goals mismatch. Fourth is lower job satisfaction when individual feels his or her job no longer provides intellectual, emotional or financial benefits. Fifth and last if search for the alternative job.

There is a complete process of job satisfaction, it begin from matching the right capability of employee, communicating the expected performance, motivating to achieve the desired goals, evaluating the end result and the conclusion will be retention or turnover. These both will express the level of job satisfaction. Retention factor supported by organizational commitment includes individual training and developmental activities.

### 2.2.8 Employee Engagement

Organization's culture builds and matches with their employees through its norms and practices which help in attracting and retaining best workforce. Walker (2001: cited by Kyndt *et al.* 2009) identified seven features that can improve employee retention:

- Gratitude on performance
- Exciting task
- Advancement and wisdom
- Working atmosphere
- Affiliation with coworkers
- Healthy stability between proficient and individual's life
- Good communications

The combination of all these factors helps in employee engagement and build a culture for long term sustainability. This high involvement culture appreciates employee empowerment, responsibility and challenges. As study suggest that workers performed better when they do job of their interest. Employee engagement workplace approach which is designed to make sure that employees remain committed to the organizational goals and values, and these efforts are put on company success (Engage for Success nd). There are various advantages of employee engagement program which make greater impact on productivity and enhance customer satisfaction. Berry *et al.* (2013) define the employee engagement program established on skills-based exercises, performance-based rewards and flexible work arrangement program, these setting develop affirmative relationship between management and worker in terms of progression, creativeness and job fulfillment.

Schmidt *et al.* (1993: cited by Wikipedia 2015) defined three most important factors of employee engagement are commitment, involvement and job satisfaction, and all these major elements develop the reason for retention. Human assets are one of the critical factor in the success of the business growth, profitability and innovation of the firm (Sage 2013). This draw attention towards the investment made on employees in term of their motivation, commitment and goal attainment, it will produce positive impact on their long-term sustainability.



Organization is a place where a human affiliated by their skills, social circle and bounded by values. Scarlett Surveys (nd: cited by Bloom nd) highlight criteria for measuring the positivity or negativity of employee engagement bases on emotional attachment with job, colleagues and organization that intensify their willingness to stay at work. This study is supported by Onen (2005) on educators' retention is based on various categories, first one is establishment linked aspects are income, work surroundings and management; secondly staff associated issues such as occupation gratification, empowerment and profession development; and third is external factors which comprise of better remuneration, competitive condition and prestige.

As defined above, employer's factor are one of the powerful elements which can attract and retain productive workforce by offering and maintaining market competitive salary structure, having an effective employee engagement program to provide better work environment and participative leadership with clear direction of future. All these capabilities builds an attractive organization with satisfied employees. There is more propensity that satisfy employees are likely to remain with the same organization and their chances of retention are high (HR Council 2008). The study conducted by Heneman and Schwab (1985) conclude that contentment with remuneration upsurge the job satisfaction which may resulted in worker's productivity, creativity and motivation.

Osibanjo *et al.* (2014) claimed that compensation has ability to accomplish employee's satisfaction and root them to the committed with organization. In the corporate world there are well structured compensation system are available. But if we look at the teaching profession, we could not find equal treatment for these practitioners. The equal treatment with teacher will help institution to get best out of them. This paper evaluate the elements behind the retention of teacher in private sector schools of Karachi. Khan M. and Aziz (2013) conducted the study on problem confronted by the school management to retain competent and experienced teachers.

For professional educator, the competency skills refer to the knowledge on subject area, developed learning experience and effective communication. In order to retain competent teachers, schools need to adopt better compensation strategies. Gering and Conner (2002) argue in their study that retention strategy solely based on compensation will not succeed in long run but the combination of entire program would be effective if right equilibrium maintain

between intrinsic and extrinsic forces. The strategy offered by Guthrie (2000: cited by Phonosanam 2010) is to maintain retention plan, schools may offer addition certification to enhance teachers' skills and job knowledge which benefits in their career growth and show institutes attention towards staff.

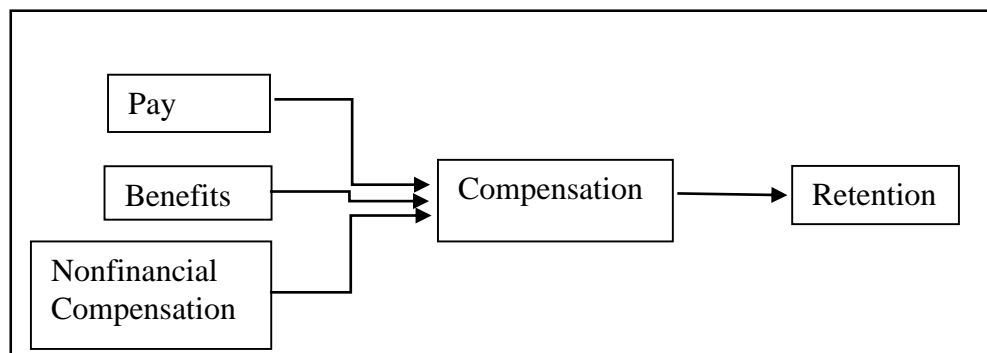
### 2.3 Research Variables

The first element analysis made for the dependent variable of employee retention, and the second factor analysis was compensation for the independent variables basic pay, benefits and non-financial incentives.

### 2.4 Theoretical Framework

Employees' retention is dependent on their level of job satisfaction, and this comes from dignity, well paid and growth. When an employee is affiliated with an organization, there are expectations from the employer with respect to their efforts and time devotion. Pay covers the financial factors of the retention. Employee growth and career development are part of non-financial end of compensation which includes career planning, training and development. Benefits make the employer competitive from the market to hold the best performer.

The below proposed model defines the link of independent variables (compensation) to dependent variable (retention).



The diagram shows that employee retention has four independent variables, i.e., pay, benefits, and non-financial factors, which are making compensation an element that directly influences employee retention.

## **2.5 Development of Hypotheses**

From the literature review on employee retention due to compensation, the following hypotheses have developed to measure the impact of compensation (pay, benefits and non-financial) on employee retention.

## **2.6 Research Hypotheses**

### **Hypothesis - 1**

H<sub>0</sub>1: There is no impact of pay on employee retention.

H<sub>a</sub>1: There is a significant impact of pay on employee retention.

### **Hypothesis - 2**

H<sub>0</sub>2: There is no impact of benefits on employee retention.

H<sub>a</sub>2: There is a significant impact of benefits on employee retention.

### **Hypothesis - 3**

H<sub>0</sub>3: There is no impact of nonfinancial incentives on employee retention.

H<sub>a</sub>3: There is a significant impact of nonfinancial incentives on employee retention.

## **Chapter 3**

### **Research Methodology**

The aim of the study is to find out the impact of compensation on employee retention in English medium private schools of Karachi. The qualitative method has adopted to learn the complexity of employee retention plan.

#### **3.1 Natures of Research**

The nature of the research is explanatory to describe the association of compensation practices on employee retention. Literature describe that explanatory research set up causal connections between variables might be termed informative research. The point here is to consider an issue with a specific end goal and to clarify the connections between variables. It is descriptive study to analyze the association between independent and dependent variables.

This research begins with the social phenomena of employee retention with the development of hypotheses and then collecting data to test the developed hypotheses. Explanatory research type is a systematic approach to exam the study in of evidence. This study helps to explain the why the phenomenon happening and drawn conclusion.

#### **3.2 Target Population**

According to Zigmund (*et al.* 2010) defining the target population size helps to specify the sampling plan and it assist in investigating the behavior of respondent through interpretation. The research has been conducted in the city of Karachi and the target population was teacher of English medium private schools. The population size was 100 and the survey organization were six, namely The City School, Z.A Academy, and Shah Grammar, Hill Crest School, The Educators, Adamjee and the Smart school.

#### **3.3 Sample Size**

Sample size is selecting a valid number of respondent out of define targeted population to get error free result. Sampling can accurate the study than studying entire population and also it creates smaller data set and analysis to the response (explorable nd). This paper consist on total

80 sample size with the margin of error was 5%, confident level was 95% and estimated response rate was 65%.

### **3.4 Sampling Technique**

For samples selection it is necessary to assume that possibility of participant, but as it's a business research and due to time and resources constraint, it's not possible to use probability techniques, hence, we have adapted non-probability sampling technique in which sample size is ambiguous and the focus of the research is on generalization of the theory.

As data cannot be selected from entire population and generality is suitable with it so the use of convenience non-probability technique is best. It is a sampling in which taking people respond is conveniently available.

### **3.5 Data Collection Method**

Data was collected through primary source and the questionnaire instrument was used which is a tool for data collection with similar set of questions are in predetermined order (deVaus 2002).

The questionnaire has enabled to classify and define the variability in different phenomena, and the types of survey posted to respondents who return them by post afterward completion. The structured questions has been adapted that impose limit on available responses.

### **3.6 Data Integration Method**

Data analysis done on Statistical Package for Social Science (SPSS) software. Statistical tests has been performed to ensure that outcomes are up to the mark (Saunders 2009). The data was integrated by using statics tools regression and correlation. The quality of independent and dependent variable relationship can be evaluated by utilizing techniques such as regression and correlation. Regression analysis can be used to anticipate the estimations of a dependent variable given the value of one or more independent variables by calculating a regression comparison. Whereas other test was correlation which examine to what extent two variables are related to each other. For testing the software was used SPSS, version 22.

## Chapter 4

### Data Integration and Analyses

#### 4.1 Data Analyses

This section comprises the analysis and explanation of the data which is composed of close ended questionnaire. To analyze the quantitative data SPSS version 22 software was used. Eighty questionnaires were distributed to respondents of English medium private schools of Karachi. The survey was contained of twenty four questions. Given underneath is the investigation of the composed data.

**Table 4.1: Gender of Respondent**

		Gender			
Gender		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	8	10.0	100.0	100.0
Missing	Female	72	90.0		
Total		80	100.0		

#### Interpretation

As the table 4.1 shows 90% respondents were female who are working as a teacher and 10% of the survey respondents were male of English medium private schools of Karachi.

**Table 4.2 Organization of Respondent**

		Organization			
Organization		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Adamjee	14	17.5	17.5	17.5
	Hill Crest	13	16.3	16.3	33.8
	The City School	17	21.3	21.3	55.0
	The Educators	21	26.3	26.3	81.3
	The Smart	15	18.8	18.8	100.0
Total		80	100.0	100.0	

### Interpretation

As the table 4.2 shows 26.3% respondents were from the Educators, the second majority group were from the City school with 21.3% response and the others were 18.8%, 17.5%, and 16.3% from the Smart school, Adamjee and Hill Crest School respectively.

**Table 4.3      Age of Respondent**

Age					
Age		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20 – 30	35	43.8	43.8	43.8
	30 – 40	37	46.3	46.3	90.0
	40<	8	10.0	10.0	100.0
	Total	80	100.0	100.0	

### Interpretation

As the table 4.3 shows 46.3% respondents were from age group of 30-40, following the 43.8% of 20-30 age bracket respondents and the least one is 40 and above age group with 10% response rate of the survey.

**Table 4.4      Education of Respondent**

Education					
Education		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	UG	10	12.5	12.5	12.5
	Graduate	50	62.5	62.5	75.0
	Master	16	20.0	20.0	95.0
	Ph.D.	4	5.0	5.0	100.0
	Total	80	100.0	100.0	

### Interpretation

As the table 4.4 shows, 62.5% respondents were graduate, 20% survey respondents were master, 12.5% were undergraduate, and remaining 5% were Ph.D. degree holders.

**Table 4.5      Tenure of Respondent**

Tenure				
Tenure	Frequency	Percent	Valid Percent	Cumulative Percent
Valid   >1-1	19	23.8	23.8	23.8
2	22	27.5	27.5	51.2
3	16	20.0	20.0	71.3
4	6	7.5	7.5	78.8
5<	17	21.3	21.3	100.0
Total	80	100.0	100.0	

**Interpretation:**

As the table 4.5 shows, 27.5% respondents had 2 years work experience, 23.75% had one year tenure, 5 and 3 years group carries 21% and 20% respectively. Only 7% respondents has 4 year work experience.

**4.2      Hypotheses Testing**

The regression model is used to determine the relationship of independent variables with dependent variable. The model of regression also determines the extent to which different variables have impact on employee retention. The nearer the adjusted R square from the table the stronger the relation in the model.

**Table 4.6      Application of Regression**

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.758 <sup>a</sup>	.575	.558	.61155

a. Predictors: (Constant), Nonfinancial, Pay, Benefits



### Interpretation

The value of R square in Table 4.6 suggest that 58% impact made by independent variables on dependent variable. The significance level is average between dependent and independent variables.

**Table 4.7 Application of ANOVA**

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	38.377	3	12.792	34.205	.000 <sup>b</sup>
	Residual	28.423	76	.374		
	Total	66.800	79			

a. Dependent Variable: Retention

b. Predictors: (Constant), Nonfinancial, Pay, Benefits

### Interpretation

Here significant level is 0.000 which is less than .05; it means that here is a positive association between independent variables (pay, benefits and non-financial incentives) and dependent variable (retention).

**Table 4.8 Application of Coefficients**

Coefficients <sup>a</sup>					
Model		Unstandardized Coefficients		Standardized Coefficients	Sig.
		B	Std. Error	Beta	
1	(Constant)	.386	.319		.230
	Pay	.676	.117	.574	.000
	Benefits	-.346	.127	-.305	.008
	Nonfinancial	.601	.134	.493	.000

a. Dependent Variable: Retention

### Interpretation

a= 0,386

b= 1.210

$$p = 0.230$$

The value of p is less than 0.05 so the null hypotheses are not accepted or rejected.

$$Y = a + \beta x$$

$$Y = a + \beta x_1 + \beta x_2 + \beta x_3$$

$$Y = 0.386 + (0.676\text{pay}) - (0.346\text{benefits}) + (0.601\text{nonfinancial})$$

**Table 4.9 Application of Correlations**

		<b>Correlations</b>			
		Retention	Pay	Benefits	Nonfinancial
Retention	Pearson Correlation	1	.679**	.394**	.619**
	Sig. (1-tailed)		.000	.000	.000
	N	80	80	80	80
Pay	Pearson Correlation	.679**	1	.615**	.593**
	Sig. (1-tailed)	.000		.000	.000
	N	80	80	80	80
Benefits	Pearson Correlation	.394**	.615**	1	.702**
	Sig. (1-tailed)	.000	.000		.000
	N	80	80	80	80
Nonfinancial	Pearson Correlation	.619**	.593**	.702**	1
	Sig. (1-tailed)	.000	.000	.000	
	N	80	80	80	80

\*\* . Correlation is significant at the 0.01 level (1-tailed).

### Interpretation

The pay and retention sig. (1-tailed) is less than 0.01 which demonstrates that there is a strong correlation amongst pay and retention. The benefits and retention sig. (1-tailed) is less than 0.01 which illustrates that there is a solid correlation between benefits and retention. The nonfinancial incentives and retention sig. (1-tailed) is less than 0.01 which spectacles that there remains a resilient correlation between nonfinancial incentives and retention.

### 4.3 Findings of Study

This research contains three independent variables – pay, benefits, nonfinancial incentives and one dependent variable retention. After performing data collection and application of valid

tests the result shows the strong affiliation between compensation and employee retention. The three given hypotheses are discuss as follows.

**H1:**

The first hypothesis was to measure the impact of pay have significant positive impact on employee retention. After performing reasonable test the significance level shows the strong relation between employee pay and their intention to stay with the organization. It suggest that organization has to consideration market competitive basic pay, commission, allowances to retain productive resources.

**H 2:**

In second alternative hypothesis has proven that benefits have significant positive impact on employee retention. Employee care play a very effective role for their commitment with the organization. The benefit plan which include vacation, health and/or retirement plan helps employees to focus on their and organization goals.

**H 3:**

The last and the third hypothesis was to identify the non-financial incentives have significant positive impact on employee retention. And it also shows the strong influence in retaining the employees, it include rewards, training and development activities, employees efforts acknowledgement, flexible working hours and work environment.

## **Chapter 5**

### **Critical Debate**

The financial and nonfinancial rewards on employee efforts have produced positive impact on their willingness to stay with the organization. Literature explains the benefits of implementing right strategy for effective compensation package to retain productive resource and eliminate low performer which in result gives profitability, quality and attainment of the goals of organization. There are efforts required from initial stage of selection process to choose the best candidate for the leadership pool and match the organizational and individual goals for long term commitment.

From the survey it has shown that teacher's stay in the organization for merit base acknowledgement of their efforts through rewards and annual increase in benefits. Majority respondent agree with the statement the salary is the big source of for employee's retention plan. Ozutku (2012) believe the extrinsic rewards play's effective role for satisfying tangible needs of teacher's, and it may come in the form of promotion, certificate of appreciation, pay, monthly performance reward and fringe benefits.

The other form of compensation is in term of benefits which may include house rent, transportation and meal expense and overtime allowance. These benefits can also cover intrinsic reward of development and training, succession planning, career enrichment and other HRD efforts by the organization. Participant of the research gives their intention towards organizational supports to teacher's health and leave policy, disbursement of salary on time, family support policies and structured reward function. The proper communication of compensation package with define salary slab such as seniority base pay, covering consumer price index, validating competence pay are also appreciated by the respondent.

The first hypothesis shows that employees are happy with the pay scale and organizations are following the right track to for their financial incentive. The basic pay is matching with current market trend and inflation rate, as pointed out in by Lai (2009) the schools should pay proper attention to financial incentive to retain the teachers. Second element of the survey is employee benefits which also shown the strong relationship with employee retention, organization need to improve benefits factor of their compensation plan for employee retention. And the last

factor, nonfinancial incentive is also get the positive result by respondent which shows that employees are happy with the nonfinancial incentives provided by the employer. According Huang (1997: cited by Lai 2009), compensation is explained into two basic functions, first is basic compensation which includes salary and second is benefits. Employee retention factor is influenced by compensation which creates motivation among employee and become a cause of job satisfaction and commitment. Herzberg's motivation-hygiene theory based on lower-order need which are necessary to remove dissatisfaction such as food, safety security and higher-level satisfying factors are recognition, career advancement and work identification. He also describe the connection between job satisfaction and motivation.

The scope of the research covers teachers and due to the nature of industry i.e. education, is not profit oriented sector, so the major employee expense consist on payroll rather than on benefits and/or nonfinancial incentives such as bonus, gratuity, provident funds or other which are compulsory in corporate world. These incentives are also attract literate class and its one of the reason for increase turnover in education industry. This paper covers the room for improvement in compensation plan in private English medium schools. The end result of retaining talented employee is enhancement in performance which comes from knowing-what, how, why and who can make competitive performer (Lee and Strong 2004: cited by Nelson and McCann nd).

Researcher claim that remuneration has an ability to reach worker's satisfaction and cause them to stay with the organization, as this has also evident in our outcome that the effects of compensation has strong relation with employee retention.

## **Chapter 6**

### **Conclusion and Recommendations**

#### **6.1 Conclusion**

Findings of the research provide ample evidence that compensation is one of the important factors for creating loyalty amongst teachers. Recognition of efforts by the organization can motivate employees and enhance their job satisfaction. All major factors of compensation – pay, benefits and rewards and nonfinancial incentive – hold the strong relationship with employee retention plan. Employees are satisfied with the basic pay and nonfinancial incentives as shown in our result with the positive significance level, whereas the benefits in schools are low as compared with the other two independent factors. The survey has proven that schools need to improve their benefits to retain their employees.

#### **6.2 Recommendations**

On the basis of weak areas projected in the results, following measures are recommended:

- Karachi based English medium private schools need to pay attention on their compensation plan in order to decrease turnover rate and retain best employees.
- Teachers should be provided merit base compensation which has to be viewed by teachers as transparent and fair.
- The private schools should look at existing benefits such as leave, health benefits, school fee of kids and conveyance, especially for female staff as it will help in long term employee retention.
- Schools need to adopt proper training and developmental strategy to enhance teachers' learning and communicating techniques.

- Opportunity may be provided to the school teachers for career development and professional growth.

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## Appendix

### Research Survey of Pakistan Banking Sector Questionnaire for Employee satisfaction

I am a student of **Bahria University Karachi Campus** and as a part of my MBA curriculum I am conducting a research for academic purposes. The data collected shall not be disclosed to any unauthorized person. Kindly answer following questions; your cooperation will be highly appreciated.

---

#### Respondents' Profile:

Gender : ☐ Male ☐ Female  
Organization : \_\_\_\_\_  
Age group : ☐ 22- 30 ☐ 30-40 ☐ >40  
Education : ☐ UG ☐ Graduate ☐ Master ☐ Ph.D.  
Position : ☐ (22- 30) ☐ (30-40) ☐ (>40)  
Tenure (years) : \_\_\_\_\_  
Date : \_\_\_\_\_

#### Instructions

- 
- a. Please fill-out the questionnaire and kindly **check** ☒ the appropriate box where it deems necessary.
- b. Choices are defined as: (1) Strongly Disagree (SD), (2) Disagree (DA), (3) Neutral (N), (4) Agree (A), (5) Strongly Agree (SA)
- 

Question Statements	SD (1)	D (2)	N (3)	A (4)	SA (5)
<b><i>Pay</i></b>					
1. Teachers are satisfied with existing salary package.					
2. Salary of faculty is set as per market trends.					
3. Salary raises are adequate and merit based.					
4. Monthly salary is always paid without any delay.					
5. Annual increment is considered compatible with inflation.					
6. Organization's pays scales are competitive in the industry.					
<b><i>Benefits &amp; Rewards</i></b>					
7. Teachers have the privilege to enroll their kids on subsidized fee.					
8. Compensation policy is effectively communicated to the employees.					
9. School assigns special incentive package on teachers' performance.					
<b><i>Nonfinancial Incentives</i></b>					
10. School recognizes teachers' efforts in tangible manners.					
11. Organization has adopted satisfactory leave policy.					

12. School periodically improves its benefits policy.					
13. Employer provides opportunity to employees to share their ideas.					
14. Organization supports teachers' career goal					
15. Health benefits are considered lucrative by the employees.					
16. Current benefits package for the teachers are reasonable.					
17. Fringe benefits are perceived to be fair.					
<b><i>Retention</i></b>					
18. Overall salary is considered a big source of employee retention.					
19. Employees stay in school for long time due to rewards and benefits.					
20. Annual raises have significant role in employee retention.					
21. Financial reward mechanism has a vital role in employee retention.					
22. Non-financial benefits are considered by employees as useful.					
23. Teachers' find current benefit plan effective force for their retention.					
24. Merit based pay has positive influence on employee retention.					